



RBI announces measures to foster orderly market conditions

On 31 August 2020, Reserve Bank of India, in order to foster orderly market conditions to overcome the effects of the on-going COVID-19 pandemic, announced the following measures:

(a) It will conduct additional special open market operation involving the simultaneous purchase and sale of Government securities for an aggregate amount of INR 20,000 crore in two tranches of INR 10,000 crore each. The auctions would be conducted on 10 September 2020 and 17 September 2020. The RBI also stated that it remains committed to conduct further such operations as warranted by market conditions.

(b) It conduct term repo operations for an aggregate amount of INR 100,000 crore at floating rates (i.e., at the prevailing repo rate) in the middle of September to assuage pressures on the market on account of advance tax outflows. In order to reduce the cost of funds, banks that had availed of funds under long-term repo operations (LTROs) may exercise an option of reversing these transactions before maturity. Thus, the banks may reduce their interest liability by returning funds taken at the repo rate prevailing at that time (5.15%) and availing funds at the current repo rate of 4%. Details regarding this shall be notified separately.

(c) Currently, banks are required to maintain 18% of their net demand and time liabilities (NDTL) in statutory liquidity ratio (SLR) securities. The extant limit for investments that can be held in held to maturity (HTM) category is 25% of total investment. Banks are allowed to exceed this limit provided the excess is invested in SLR securities within an overall limit of 19.5% of NDTL. SLR securities held in HTM category by major banks amount to around 17.3% of NDTL at present. However, there are inter-bank variations with some banks close to the 19.5% of NDTL limit. Accordingly, RBI decided to allow banks to hold fresh acquisitions of SLR securities acquired from 1 September 2020 under HTM up to an overall limit of 22% of NDTL up to 31 March 2021 which shall be reviewed thereafter. Details regarding this shall be notified separately.



(d) The RBI stands ready to conduct market operations as required through a variety of instruments so as to ensure orderly market functioning.

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We continue business as usual and our attorneys and staff are available to provide our clients uninterrupted service. Please do not hesitate to reach out with questions or concerns at any time. We hope that you and your family remain healthy and safe throughout this global health challenge.

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